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TOP SECRET

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FAR EAST

1. Hong Kong official "not optimistic" over Korean peace prospects:

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Geoffrey Aldington, Political Advisor to the Hong Kong Government, has told US Consul General McConaughy that he sees "no sign of war weariness" among the Chinese, nor of a disposition on the part of the Communist

leadership to "come to terms." Aldington believes that Peiping has sold the Chinese people on a "holy war" to defend China's borders and had "added greatly to its stature" by demonstrating its ability to "fight a foreign war against a powerful enemy." McConaughy, who feels that the British official has "greatly overestimated" popular support of Peiping's intervention in Korea, states that "almost all" mainland informants agree that opposition to Peiping is "very general" among all classes except younger students and the regime's own functionaries.

Comment: The basis of Aldington's estimate is not known. Available evidence indicates that popular support for Peiping's domestic and foreign policies is not widespread. However, Peiping's control over the populace appears to be firm, and the regime's new campaign for funds to buy heavy equipment for Korea indicates that the Communists intend to force the Chinese people to contribute increasingly to the Korean venture.

2. Bao Dai's popularity in Vietnam apparently increasing:

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US Minister Heath reports that the presence of 35,000 "highly interested if not deliriously enthusiastic" spectators at the 6 June commemoration of the unification of the Annamese Kingdom

marked this festival as a striking success in contrast with the relative apathy shown on a similar occasion a year ago. During a parade of young delegations and Vietnamese troops before Bao Dai and Premier Huu, the French remained discreetly in the background and no French troops paraded. Heath believes that the size of the crowd indicates

Bao Dai's increased popularity and testifies to the authority and organizing ability of Premier Tran Van Huu's government.

Comment: This development is the more significant in that Bao Dai's popularity has always been lower in Saigon than in other areas of Vietnam. The favorable popular response testifies also to increasingly harmonious relations between Bao Dai and Premier Tran Van Huu.

NEAR EAST

3. Oil Company plans to offer financial assistance to Iran:

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The UK Foreign Office has indicated to the US Embassy in London that the Anglo-Iranian Oil Company will offer some financial assistance to Iran at the start of the forthcoming negotiations, if in turn the government will agree not to take any provocative action in the oil areas in connection with implementing the oil nationalization law during the negotiations. The Embassy reports that the British Foreign Office has become concerned over the recent increase in anti-British and anti-AIOC propaganda in Iran.

Comment: Prime Minister Mossadeq, who is seriously concerned over his government's straightened financial circumstances, probably will be tempted by the offer, particularly since he himself does not want to take any step which would prevent a peaceful solution of the matter with AIOC. The danger remains, however, that Mossadeq will not be able to control events in the oil fields. Although he himself has exhibited an increasingly moderate tone on the matter in discussing it with Ambassador Grady, his government colleagues have continued to stir up the country with their violent speeches in favor of nationalization.

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EASTERN EUROPE

4. Collectivization constitutes serious problem in Soviet Orbit:

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[Redacted]

Reporting on the recent action of the Polish Politburo dissolving a Party District Committee for agricultural collectivization abuses, US Embassy Warsaw comments that this action

is symptomatic of the serious doctrinal and practical problems raised by collectivization in the Soviet Orbit. The Embassy notes as evidence of Communist pre-occupation with this problem: (1) recent modifications of the collectivization program in Poland and Hungary; and (2) airing of collectivization difficulties in Czechoslovakia during the recent Party upheavals.

Comment: Collectivization has been used by the Communists to release manpower for industrial expansion and also as a means of controlling the peasantry. While the former objective has been achieved in part, control of the peasant, particularly in the European satellites, remains a serious problem. This is illustrated by recent steps taken in Bulgaria, which is 52% collectivized, to organize a Party control apparatus within the Ministry of Agriculture to insure the proper functioning of Bulgaria's agricultural production.

5. Additional peasant demonstrations reported in Bulgaria:

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[Redacted]

The Turkish press and radio during the past week have reported simultaneous anti-Communist peasant demonstrations throughout Bulgaria. The US Consulate in Istanbul states that "uprisings in Bulgaria have been partially confirmed" by Bulgarian immigrants interrogated in Turkey who state that demonstrations took place in the widely separated cities of Shuman, Pleven and Svilengrad late in May. The immigrants also stated that anti-regime pamphlets have been recently distributed in

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large Bulgarian towns.

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7. Yugoslav officials react favorably to senate hearings on US foreign policy:

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Ambassador Allen reports that high Yugoslav officials have generally reacted favorably to the current debate on US foreign policy and have expressed confidence that the administration's policy will be vindicated. Yugoslav leaders have followed with particular interest and approval Senator Fulbright's view that US foreign policy should be based on opposition to aggression and his opposition to MacArthur's inclination to view all Marxists alike. Ambassador Allen feels that the debate will have salutary results in Yugoslavia by convincing the Yugoslavs that US policy is based squarely on opposition to aggression and that the US is supporting rearmament solely for defensive purposes.

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LATIN AMERICA

9. Panamanian Government to penalize ships violating UN embargo:

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 Following a US request, the Foreign Minister of Panama stated that his government would report to the UN Additional Measures Committee, prior to 18 June, the penalties which Panama would apply to ships of Panamanian registry violating the UN embargo.

Comment: The subtraction of ships under Panamanian registry from the Western flag vessels carrying strategic materials to Communist China would be a substantial contribution to the effectiveness of the UN embargo, since the Panamanian merchant marine is one of the largest (approximately 900) in the world. Effective enforcement of penalties, however, might reduce the number of ships registered in Panama and thereby cut into the government's revenue from registry and property taxes. Consequently, the degree of enforcement will be a further test of the cooperativeness of the newly installed Arosemena administration.